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S E C R E T SECTION 01 OF 02 PARIS 001306

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E.O. 12958: DECL: 03/27/2017

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SUBJECT: FRENCH IMPLEMENTATION OF UNSCR 1747: BANK SEPAH

REFS: A) STATE 038553
B) STATE 40440
C) Paris 1228
D) State 40909

Classified By: Economic Counselor Stuart Dwyer for reasons 1.4
(b) and (d).

SUMMARY

¶1. (S) France clamped down on Bank Sepah just before adoption of UNSCR 1747, ensuring no capital flight would occur and thereby allow Iran to elude an asset freeze. The French Banking Commission acted in advance of French or EU implementing texts.
END SUMMARY.

Bank of France Pre-Action

¶2. (S) We met with Daniele Nouy, Secretary General of the Banking Commission, on March 29 to follow up on our meetings on March 22 (ref C) on UNSCR 1747 regarding French action against Bank Sepah. Nouy initially reiterated that the Banking Commission is just a supervisor; when it gets a text with directions from its government, it implements it. She noted that France expects implementing text from the EU within the next 20-30 days, and a text from the French Treasury based on French national authority within ten days.

¶3. (S/NF) Nouy revealed that, in fact, France had taken action even before UNSCR 1747 was approved, since several elements were involved, namely, its anti-money laundering authority (in the absence of national proliferation finance authority) and its role as banking regulator. The Banking Commission previously had engaged with its EU colleagues (Italy, the UK, and Germany) because of Sepah branches in those countries, but the banking regulators in those countries kept changing their minds about what to do. Early in the week of March 19, she was informed that the Germans were finally willing to do something because they had detected that "lots of money" from Sepah was leaving Germany. On this basis, the regulators concluded that trouble in one country would lead to trouble in others, and so decided to move in coordinated fashion, as they had done against BCCI (NOTE: the Bank of Credit and Commerce International, which was closed down in 1991 for massive fraud. END NOTE).

¶4. (C) On Thursday, March 22, France moved an administrator to oversee all of Bank Sepah's operations. The Banking Commission also started on-site examinations of the other 3 Iranian banks operating in France. The administrator has the power to review, and stop, any and all Sepah transactions. The examiners, in contrast, do not (yet) control the management of the other banks. After the UN resolution was adopted, the administrator stopped transactions in Sepah to implement the asset freeze.

¶5. (S/NF) Nouy added that the administrator is preparing a report on Sepah. Without the authorizing legal texts, bank secrecy rules prevent the Commission from sharing its information with others. It has not, however, observed any spillover on other banks.

Treasury Text Soon to Follow

¶6. (C) We also followed up with Corso Bavagnoli, Deputy Assistant Secretary-equivalent at the Ministry of Finance for Monetary Systems and International Finance, on April 2. He confirmed that the French Treasury text freezing the assets of Bank Sepah only awaits signature before taking effect. In the meantime, he is satisfied that the measures taken by the Banking Commission have been effective in preventing any asset flight. He said that the Treasury text would fully cover any correspondent bank relationships that Bank Sepah might have, and mentioned that the next administrative problem will be the other Iranian banks operating in France. He agreed that the Iranian Central Bank's actions would need to be watched, since there are many ways to transfer assets, such as by granting loans with no expectation of repayment.

¶7. (C) We also informed David Bertolotti, desk officer at the MFA of our demarches to the Banking Commission and the French Treasury, and informed him of our designation of Defense Industries Organization (ref D). He welcomed the information and added that France had already taken steps with respect to DIO.

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